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Massachusetts Health Care Cost Trends

Trends in Health Expenditures

Executive Summary

June 2011



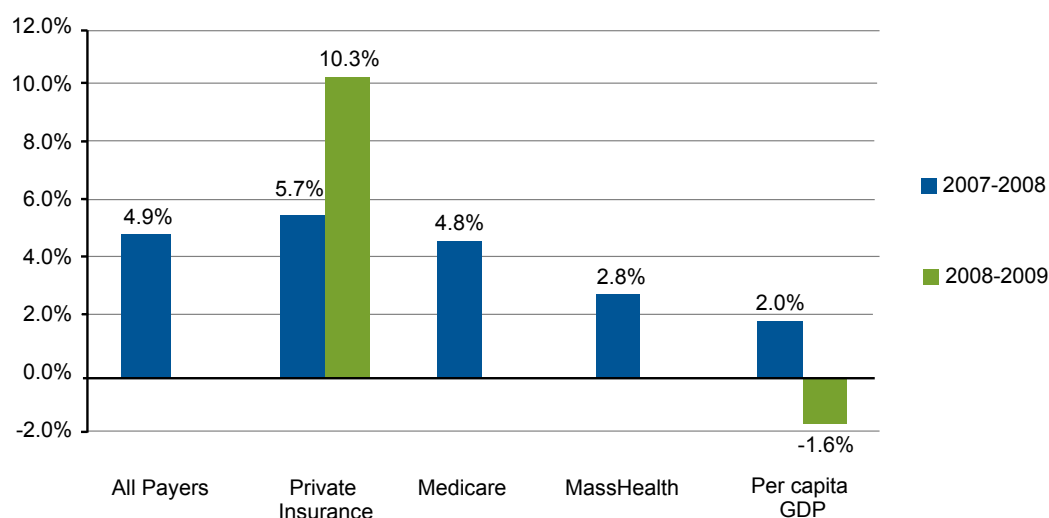
DIVISION OF
Health Care
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Introduction

Pursuant to the provisions of M.G.L. c. 118G, § 6 1/2, the Massachusetts Division of Health Care Finance and Policy (DHCFP) is required to conduct an annual study of health care cost trends in the Commonwealth, and the factors that contribute to cost growth. This report documents the major trends in total health care spending for care covered by fully insured and self-insured comprehensive private health plans in Massachusetts from 2007 to 2009, as well as trends in Medicare and MassHealth (the Commonwealth's Medicaid program) spending from 2007 to 2008.¹

From 2007 to 2009, health care spending in Massachusetts continued to outpace growth in the economy (Figure A). Nationally, the economic downturn resulted in a decline of enrollment in employer-sponsored health insurance and lower health care spending growth than at any time during the past 50 years. In Massachusetts, the impact of the economic downturn was delayed and not as severe as for the nation as a whole, and health care spending growth was largely uninterrupted.

Figure A: Percent Change in Estimated Health Care Spending Per Member Year by Payer and Massachusetts GDP Per Capita, 2007-2009



Source: Mathematica Policy Research analysis of private, Medicare, and MassHealth claims for Massachusetts residents; and U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product by State, available at <http://www.bea.gov/regional/gsp/action.cfm>, accessed 6/2/2011.

Note: Health care spending estimates include patient cost-sharing.

¹ Total spending includes the amounts paid by insurers, self-insured employers, and public programs as well as cost-sharing and out-of-pocket expenses such as co-payments, coinsurance, and deductibles.



Overview of Private and Public Payers

Private insurers and self-insured health plans collectively paid health care providers an estimated \$15.9 billion, or 43 percent of estimated total health care spending, for services used by Massachusetts residents under comprehensive coverage arrangements in 2008 (Figure B).² Medicare accounted for \$11.6 billion or 32 percent of this spending, while MassHealth accounted for \$9.4 billion or 26 percent in 2008. Patterns of spending by payer reflect differences in their covered populations as well as differences in payment practices.

Private Coverage

Private insurance covers the largest proportion of the population. Estimated spending per member year for residents enrolled in employer-sponsored or individual coverage was \$4,427 in 2008, or one-third that of either Medicare or MassHealth (Table 1).

Medicare

Medicare covers predominantly elderly residents, as well as residents under age 65 who are disabled. On average, this population consumes significantly more health care services than the privately insured population. Consequently, Medicare spending per member year (\$12,995 in 2008 among fee-for-service enrollees) is predictably much higher.

MassHealth

MassHealth covers the most diverse population and the greatest range of services—including primary and acute care services for low income individuals and families, and institutional and community-based long-term care for the elderly and other disabled adults and children. MassHealth covers nearly two-thirds of Massachusetts nursing home residents, approximately one-third of Massachusetts children, and more than a quarter of non-elderly Massachusetts adults with disabilities.³ MassHealth spending per member year (\$14,378⁴ in 2008) reflects the high health care needs of the elderly and disabled populations that it serves, as well as the broad range of services that it covers.

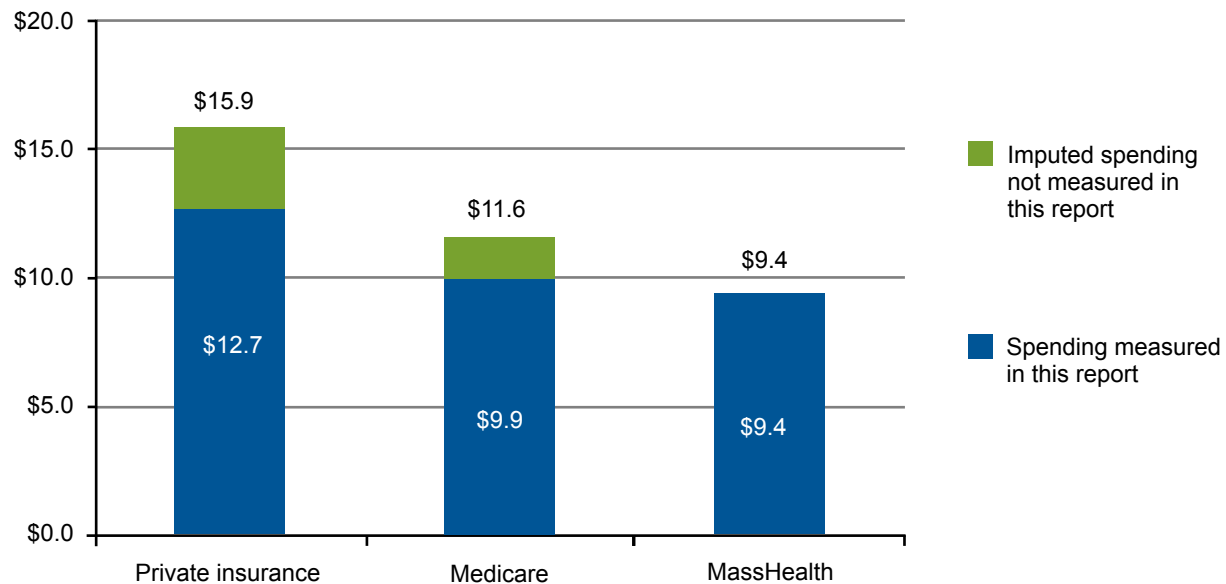
2 In 2008, employer-sponsored health insurance covered 66 percent of the Massachusetts population, Medicare covered 15 percent, and (other) public and other programs covered 15 percent. See: Division of Health Care Finance and Policy, Health Insurance Coverage in Massachusetts: Results from the 2008-2010 Massachusetts Health Insurance Surveys, December 2010. Available at: http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/10/mhis_report_12-2010.pdf, accessed 6/2/2011.

3 Robert Seifert and Stephanie Anthony, The Basics of MassHealth. Massachusetts Medicaid Policy Institute Fact Sheet, February 2011. Available at: <http://bluecrossfoundation.org/-/media/MMPI/Files/The%20Basics%20of%20the%20Massachusetts%20MassHealth%20Program%20February%202011.pdf>, accessed 5/13/2011.

4 The spending reflected here includes both fee-for-service (FFS) spending and the capitated spending of managed care organizations (MCOs). Most of the detailed analysis in the report reflects only the MassHealth FFS spending.



Figure B: Estimated Total Health Care Spending for Massachusetts Residents for Covered Services by Major Payer, 2008 (\$ in billions)



Source: Mathematica Policy Research analysis of private, Medicare, and MassHealth claims for Massachusetts residents.

Note: Estimates reflect spending under comprehensive health plans; spending under supplemental private coverage (including Medigap coverage, workers compensation, or other private coverage) is not included. Spending is imputed to estimate the proportion of total spending under comprehensive coverage contracts that is included in this report and relative spending among payers. Imputed spending for privately insured services is calculated as total spending in claims data reported by Blue Cross Blue Shield of Massachusetts, ConnectiCare, Harvard Pilgrim Health Care, Health New England, and Tufts Health Plan, divided by the proportion of all (resident and nonresident) member months in calendar year 2008 attributable to these carriers (80 percent) as reported to DHCFP. Imputed Medicare spending is estimated as the average monthly local plan benchmark payment rate for each Medicare Advantage enrollee in Massachusetts multiplied by the number of Massachusetts beneficiaries enrolled in Medicare Advantage plans in 2008. (See: Kaiser Family Foundation, Medicare Health and Prescription Drug Plan Tracker, available at: <http://healthplantracker.kff.org/georeresults.jsp?r=26&n=&i=&c=&pt=8&yo=2&x=17&y=10>, accessed 5/12/2011).



Table 1: Spending and Use of Health Care Services by Major Payer and Type of Service, 2008-2009

	Private insurance		Medicare ^a	MassHealth ^a
	2008	2009	2008	2008
Total spending				
Spending per member year	\$4,427	\$4,885	\$12,995	\$14,378
Annual growth in spending per member per year	5.7%	10.3%	4.8%	2.8%
Inpatient hospital				
Spending per member per year	\$704	\$776	\$3,998 ^b	\$955
Annual growth in: Spending per member per year	6.3%	10.3%	4.9%	7.9%
Admissions per member year	-0.6%	4.0%	-0.2%	-- ^c
Spending per admission	7.3%	6.3%	5.2%	-- ^c
Outpatient hospital services				
Spending per member year	\$1,035	\$1,172	\$1,569	\$566
Annual growth in: Spending per member per year	10.2%	13.2%	6.2%	-4.9%
Services per member year	3.3%	3.6%	5.1%	-5.9%
Average spending per service	6.7%	9.2%	1.1%	1.1%
Professional services				
Spending per member year	\$1,410	\$1,576	\$2,464	\$923
Annual growth in: Spending per member per year	9.2%	11.8%	1.8%	8.0%
Services per member year	3.4%	8.7%	2.2%	8.4%
Average spending per service	6.1%	3.1%	-0.4%	-0.4%
Prescription drugs				
Spending per member year	\$847	\$890	\$2,213	\$652
Annual growth in: Spending per member per year	-1.6%	5.1%	4.0%	4.7%
Number of filled prescriptions per member year	-5.7%	3.4%	1.5%	6.2%
Average spending per filled prescription	3.0%	2.1%	2.5%	-1.4%
Diagnostic imaging services				
Spending per member year	\$421 ^d	\$475 ^d	\$602	\$151
Annual growth in: Spending per member per year	8.3%	7.5%	1.8%	26.8%
Services per member year	0.5% ^e	-0.3% ^e	2.2%	42.0% ^f
Average spending per service	7.7% ^e	7.8% ^e	-0.5%	-10.7%

Source: Mathematica Policy Research analysis of private insurance, Medicare, and MassHealth claims for Massachusetts residents.

Note: Estimates include the amounts that insurers, self-insured employers, Medicare, and MassHealth paid for covered services, as well as cost-sharing paid by patients. Spending for other services not allocated to these spending categories—including, for example, rehabilitation or psychiatric hospital care, and institutional long-term care—is included in total spending but otherwise not shown. All growth estimates are calculated relative to the prior year.

^a Medicare and MassHealth claims data for 2009 are not yet available, so only 2008 data are shown. MassHealth estimates include only spending that received federal matching funds.

^b Higher Medicare inpatient spending per member year reflects much higher rates of admission among Medicare beneficiaries (385.3 admissions per member year in 2008) than among privately insured residents (69.3 admissions per member year).

^c Estimates are not reported due to data limitations.

^d Estimate includes capitated spending as well as the professional component of inpatient imaging when billed separately.

^e Estimates reflect changes in fee-for-service spending for services delivered in outpatient settings.

^f For MassHealth, the number of imaging services increased from 1.16 to 1.64 per member year. The number of privately insured imaging services, by comparison, increased from 0.90 to 0.91 per member year, and the number of Medicare-covered imaging services increased from 3.74 to 3.83 per member year.



Key Findings

Private payer health spending in Massachusetts outpaced national health care spending and spending by Medicare and MassHealth

- **Spending per privately insured member grew 6 percent from 2007 to 2008 and another 10 percent from 2008 to 2009.** This rate of growth was substantially higher than the increase in national personal health care expenditures per capita from 2008 to 2009. In 2009, national personal health care spending per capita increased 4.6 percent—a deceleration from 4.9 percent growth in 2008.⁵
- **Spending by private payers grew faster than spending by public payers.** The rate of growth for spending on privately insured people from 2007 to 2008 also outpaced the growth in spending for Massachusetts residents in Medicare (4.8 percent) or MassHealth (2.8 percent) during the same time period (Figure A). The rates of growth for both private and public payers in Massachusetts continued to outpace increases in per capita state gross domestic product⁶ and wages.⁷

Faster growth in spending by private payers was largely the result of increasing prices

- **Rising prices played a significant role in increasing private spending for inpatient and outpatient hospital services, as well as physician and other professional services.** Higher prices explained virtually all of the increase in private inpatient spending from 2007 to 2009. Similarly, increases in prices accounted for about half of the growth in outpatient spending from 2007 to 2008, and virtually all of the growth from 2008 to 2009 (when spending per member year grew 13 percent). For professional services, higher prices explained 77 percent of the growth in spending from 2007 to 2008, and 88 percent of the increase from 2008 to 2009.
- **Private spending for drugs was largely driven by price increases in non-generic drugs.** Although overall increases in drug spending were more modest than those for other services, price increases for non-generic drugs were a major factor in rising spending. From 2007-2009, the average price of generics grew less than two percent per year, compared with a growth of more than ten percent for non-generics.
- **Increased private spending for imaging was driven by higher prices per service.** For all types of imaging, higher spending per service—not greater use of imaging services—drove much or all of the growth in spending per member year.

⁵ Price factors accounted for 60 percent of the 4.6 percent change, while non-price factors accounted for the remaining 40 percent. See: Anne Martin et al. "Recession Contributes to Slowest Annual Rate of Increase in Health Spending in Five Decades," *Health Affairs*, Volume 30, No.1 11-22; January 2011.

⁶ Between 2007 and 2009, Massachusetts real GDP growth declined by 1.8%. The nation experienced a decline of 2.8% over the same time period. Source: US Bureau of Economic Analysis.

⁷ Massachusetts median income declined 0.7% between 2007 and 2009, falling from \$64,515 in 2007 to \$64,081 in 2009. Available at: http://chn.org/pdf/2010/ACSmedincome_state2007-09.pdf, accessed 6/7/2011.



Growth in Medicare and MassHealth spending predominately reflected increases in service use, rather than growth in prices

- **Spending growth in physician and other professional services for public payers was due to increased utilization.** Growth in Medicare spending for professional services (1.8 percent) was entirely driven by increased use of services. Similarly, in MassHealth, an eight percent increase in spending per member year for professional services in 2008 corresponded to 8.4 percent growth in service use per member year.
- **Increased utilization led to the growth in public payer spending for outpatient hospital services.** Nearly all of the growth in Medicare spending per member year for outpatient services (5.1 percentage points of 6.2 percent total growth) was due to increased utilization. Similarly, all of the decrease in MassHealth outpatient hospital spending per member year was due to decreased utilization.
- **Growth in public payer spending for imaging was due to increased utilization.** For Medicare and MassHealth, growth in spending per member year on imaging was driven more by increased service use and less by changes in spending per service. In both programs, average spending per diagnostic imaging service declined from 2007 to 2008, while the use of diagnostic imaging services per member increased. Spending increases for Medicare for diagnostic imaging was low at 1.8 percent (Table 1).

Other Key Findings on Spending Trends

- **While there was rapid growth in nearly every category of private insurance spending on a per member year basis, it was most significant for physician and other professional services (21 percent from 2007 to 2009) and outpatient hospital services (more than 23 percent from 2007 to 2009).** These two categories of spending accounted for 84 percent of all privately insured spending growth between 2007 and 2009. For MassHealth, inpatient hospital care and professional services were the fastest growing sectors. Outpatient services were the fastest growing for Medicare.
- **Spending for outpatient hospital services grew much less for public payers than for the private sector.** From 2007 to 2008, spending per member year for hospital outpatient care grew 6.2 percent for Medicare and decreased 4.9 percent for MassHealth. This compares with 10.2 percent growth in spending for privately insured hospital outpatient services.
- **Inpatient hospital spending growth was slower for Medicare than for the private sector.** Inpatient spending for Medicare members increased 4.9 percent per member year, compared with 6.3 percent growth per member year for privately insured inpatient care. MassHealth inpatient spending growth outpaced the private market at 7.9 percent.



- **For prescription drugs, growth in private insurance spending lagged behind spending growth in Medicare and MassHealth.** Private insurance prescription drug spending per member year fell slightly from 2007 to 2008 as utilization declined but then grew 5.1 percent from 2008 to 2009. This compares with growth in spending per member per year between four and five percent in Medicare and MassHealth, respectively.
- **Behavioral health was, by far, the fastest-growing category of privately insured inpatient hospital spending.** Although behavioral health accounts for a relatively small proportion of total spending, it grew rapidly from 2007 to 2009.⁸ Inpatient behavioral health spending per member year increased 49 percent from 2007 to 2008, and 14 percent from 2008 to 2009. Unlike other types of inpatient expenses, growth in behavioral health inpatient spending was linked to growth in the volume of care.

Additional Key Findings

- **Capitation eroded further as a method of payment in the private Massachusetts health care market.** In stark contrast to the increasing political and industry support for alternate payment methods, including support of global payments in recommendations issued by the Special Commission on the Health Care Payment System in 2009, relatively few private health care services were financed through capitated payments.
- **A majority of private inpatient spending was devoted to care delivered in tertiary care or specialty and teaching hospitals.** In 2009, two-thirds of privately insured inpatient spending was for care obtained in tertiary care or specialty and teaching hospitals, either in the Boston metro area (52 percent) or elsewhere in Massachusetts (14 percent). Just 29 percent of private inpatient spending was for care obtained in community hospitals. For Medicare and MassHealth enrollees, about half of inpatient spending occurred in tertiary care hospitals, while care in community hospitals accounted for 32 percent of spending for MassHealth and 41 percent of spending for Medicare.

Conclusion

Health care spending continues to outpace inflation, wage growth, and other measures of economic growth in Massachusetts. As demonstrated in this report, the significance of price in driving higher spending for privately insured health care warrants serious consideration as strategies to reduce health care cost growth are crafted and implemented. It seems likely that greater coordination of payment levels, with new collaborative strategies that engage payers and providers as well as employers and consumers, will be needed to ensure that rising prices do not ultimately derail residents' access to high quality, affordable health care.

⁸ Effective July 2009, Massachusetts significantly extended the scope of its mental health parity law. In addition, effective October 2009, the federal Mental Health Parity and Addiction Equity Act of 2008 (P.L. 110-343(B)) eliminated annual, lifetime, or treatment limits for mental and health or substance abuse disorders that were more restrictive than those for other medical benefits, cost-sharing that was higher than for other medical benefits, and plan rules that restricted patients from using out-of-network mental health care providers.





Acknowledgments:
Analytics by Mathematica Policy Research, Inc.

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Publication Number: 11-165-HCF-02
Authorized by Gary Lambert, State Purchasing Agent

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